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UNCLAS GEORGETOWN 000090

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TAGS: PGOV ECON EAID GY
SUBJECT: Budget Speech Unveils Government Program For 2006

Ref. 05 GEORGETOWN 1273

¶1. SUMMARY: The Minister of Finance presented Guyana's 2006 budget, which includes ambitious projections for economic growth, increased public spending, tax reform, and resource extraction. Despite the President's pledges not to use the budget for political ends, the election year budget diminishes any expectations about improving fiscal solvency in 2006. END SUMMARY.

¶2. Finance Minister Saisnarine Kowlessar unveiled Guyana's 2006 budget in a speech before Parliament on January 23. Total spending will amount to GD102.9 billion (USD511.9 million), an increase of 19.1% over the 2005 budget and an estimated 11.5% above 2005 actual spending. The budget calls for current expenditures to increase 4.7% to GD59.3 billion (USD295 million). Much of the increase will go toward raising old age pensions and social assistance by 75% from GD2000 to GD3500 monthly. On the capital side, expenditures are expected to increase 20% to GD42 billion (USD209 million). This includes continuation of the Chinese-financed Skeldon sugar plant modernization and GD4.5 billion for road construction.

¶3. As for financing, the budget anticipates revenues of GD58.5 billion (USD291 million), an increase of 4.4%. Grant financing is expected to increase by 33 percent to GD17.7 billion (USD88 million) of which GD1.7 billion would be due to the World Bank and IMF-sponsored Multilateral Debt Relief Initiative (MDRI). The remainder will be deficit financing amounting to GD25.1 billion (USD125 million), or 14.7 percent of GDP, an increase from GD23.4 billion (DUS116 million, or 14.2 percent of GDP, in 2005. This deficit will be largely financed through net external borrowing of GD22.4 billion (DUS111 million). Kowlessar also pledged to continue lobbying for the extension of the MDRI to include cancellation of debts owed to the Inter-American Development Bank.

¶4. In terms of growth projections, the budget assumes a real GDP growth rate of 4.2% in 2006, a figure roughly in line with the IMF's projection for the year. This growth would follow a contraction in 2005, estimated by ECLAC to be 5.4%, due to epic flooding in January 2005. Among the industries expected to see substantial growth are sugar at 28%, rice at 4.5%, and bauxite at 77.6%. Gold mining is expected to fall by 40% due to the closure of the Omai Gold Mine last fall. The projected rice production figure of 290,000 tons comes despite recent estimates by the Guyana Rice Development Board (GRDB) that as much as 10% of the country's rice-producing acreage was affected by recent flooding. The GRDB has estimated that the floods have consumed rice with an estimated USD4 million export value.

¶5. Opposition members of Parliament guffawed when Kowlessar pledged no new taxes in the 2006 budget. The budget calls for reforming the income tax in two ways. First, the threshold for income tax payment will rise from GD240,000/year to GD300,000/year. In addition, the budget would eliminate the current two-tiered tax rates of 20% on the first GD110,000 of income and 33 1/3% on any amount in excess with a single tax rate of 33 1/3%. In effect, this is a personal income tax cut. The Finance Minister also announced that the 16% Value Added Tax will be delayed until January of 2007.

¶6. On the subject of law enforcement, Kowlessar added himself to the list of GoG officials who have refered to discussions with the Embassy on establishing a DEA presence in Guyana. He also said the GOG is on track to table revised anti-money laundering legislation this year. He also proposed the establishment of a Deportee Monitoring Unit to enable the GoG to "counter the negative impact of the growing number of deportees within our midst" and a USD1million anti-crime effort to include community policing.

¶7. COMMENT: Despite insistence that it is not "an elections season" budget and President Jagdeo's past pledges not to let electoral politics affect public finance (reftel), the ruling PPP has touted the 2006 budget as having "something for everyone". In the process, this year's budget appears to have dashed any hope for a trend toward fiscal solvency and significant increases in revenue collection. Initial opposition has centered on the elimination of the 20% tax

bracket in favor of the uniform 33.5% as well as the apparent failure to present a long-term proposal to repair the country's ailing drainage and irrigation system. Post will monitor and report as the budget debate commences. END COMMENT.

BULLEN